BRIEFING ON SUSTAINABLE FINANCE POLICY IN JAPAN

INTRODUCTION

Over the past five years, there has been a dramatic increase in the attention paid by financial policymakers to sustainability issues. Accompanying, and in some markets leading this change, institutional investors have actively engaged with these policymakers on sustainability issues.[1] Japan is no exception. This briefing provides an overview on the progress to date on sustainable finance and investment policy in Japan and sets out recommendations for future discussion with policymakers, investors and other stakeholders to advance sustainable finance in the country.

Sustainable finance has become key for Japan to increase its attractiveness as a global financial market and to achieve sustainable growth. In addition, Japan, as the world's third largest economy, is expected to make a substantial contribution to addressing global challenges such as climate change and inequality. In recent years, the sustainability related agenda has attracted significant attention in both public and private sector discussions in the Japanese financial market. Japan's Financial Services Agency (FSA), the Ministry of Economy, Trade and Industry (METI), and the Ministry of Environment (MOE) all play important roles to drive this discussion forward and have published codes and guidance. Meanwhile, institutional investors, most notably Japan's Government Pension Investment Fund (GPIF), have developed their stewardship activities and promoted a long-term investment and active ownership perspective.

The way the investment policy framework is designed and implemented affects the ability of institutional investors to generate sustainable returns and create value over the long term. It also affects the sustainability and resilience of financial markets, as well as social, environmental and economic real economy outcomes. As policymakers consider sustainable finance and investment policy reforms, investors should be engaging policymakers by providing technical expertise and promoting policies that support capital allocation to sustainable investments.

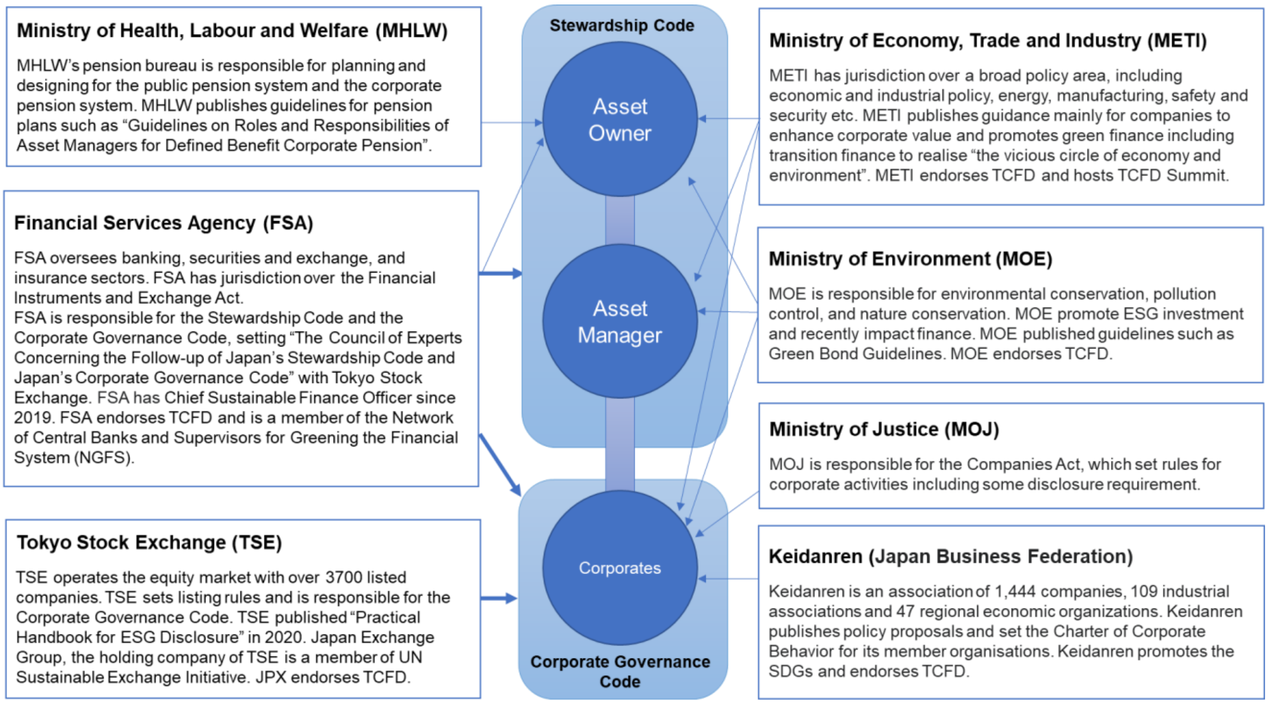
Thanks to the Stewardship Code and the Corporate Governance Code, institutional investors in Japan have started to actively engage with companies on sustainability related issues. To continue progress on building a comprehensive sustainable finance policy framework, investors need to further engage with policymakers and promote effective policy change to support sustainable investment practice. This briefing identifies recommendations for PRI signatories to engage with policymakers and accelerate sustainable finance and investment policy reforms in Japan.

[1] https://www.unpri.org/Uploads/c/j/u/pripolicywhitepapertakingstockfinal_335442.pdf

POLICY LANDSCAPE

Finance and investment policy frameworks and guidelines relevant to sustainable finance and investment are under the responsibility of several ministries, government agencies and related parties, presented in Figure 1.

Figure 1: Sustainable Finance Policy Landscape



There is no comprehensive government-level policy strategy on sustainable finance and investment, but issues such as corporate governance and green finance are included in the Government's Growth Strategy[2] and the Long-term Strategy under the Paris Agreement.[3] Different government ministries, agencies, stock exchanges, institutional investors, and economic organisations have set up working groups and published guidance within their jurisdiction that form an emerging policy framework on sustainable finance and investment (Fig.2).

[2] https://www.kantei.go.jp/jp/singi/keizaisaisei/kettei.html#seicho2019
[3] https://www.env.go.jp/earth/earth/ondanka/mat3.pdf

Figure 2: Working Groups and Publications

	Working Group / Task Force etc.	Code / Guidance / Guideline etc.
Financial Services Agency	• The Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code (2015-) • Working Group on Corporate Disclosure (2018) • Impact Investing Study Group (2020-)	• Stewardship Code (2014, revised in 2017, 2020) • Corporate Governance Code (2015, revised in 2018) • Guidelines for Investor and Company Engagement (2018) • Financial regulation and SDGs (2018, revised annually)
Ministry of Economy, Trade and Industry	• Study Group on Long-term Investment (Investment evaluating ESG Factors and Intangible Assets) toward Sustainable Growth (2017) • Study Group on Implementing TCFD recommendation for mobilising green finance through proactive corporate disclosure (2018) • SDG Management/ESG Investment Study Group (2019) • Study Group on Environmental Innovation Finance (2020-)	• Ito Review "Competitiveness and Incentives for Sustainable Growth" (2014, 2017) • Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation (2017) • The Guide for SDG Business Management (2019) • Concept Paper on Climate Transition Finance Principles (2020) • Climate Innovation Finance Strategy (2020)
Ministry of Environment	• Green Bond Review Committee (2016) • ESG Finance High Level Panel (2019-) • Task Force on Positive Impact Finance (2020)	• Green Bond Guidelines (2017, 2020) • Practical guide for Scenario Analysis in line with the TCFD recommendations (2020) • Basic Concept of Impact Finance (2020)
Japan Exchange Group Tokyo Stock Exchange		• Corporate Governance Code (2015, revised in 2018) • Practical Handbook for ESG Disclosure (2020)
Keidanren (Japan Business Federation)		• Revised Charter of Corporate Behavior (2017) • Advancing ESG investment, Society 5.0 and SDGs (2020)

The Government of Japan has adopted a principles-based and soft-law approach to sustainable finance, encouraging voluntary actions from both institutional investors and companies. This can be seen in the Stewardship Code, the Corporate Governance Code, and ministries' policies and guidelines. This approach allows a focus on industry best practices without setting minimum compliance standards. While a voluntary approach allows for market practice to develop and to increase awareness on sustainable investment, evidence demonstrates that standardised, mandatory regulations are more impactful than voluntary guidelines.[4] Mandatory regulation will not only help to codify terminology, for greater consistency, it will also create market efficiencies and level the playing field on existing best practices, rewarding first movers and the best social and environmental performers.

[4] https://www.unpri.org/download?ac=325

POLICY REVIEW

STEWARDSHIP AND CORPORATE GOVERNANCE CODES

The Stewardship Code and the Corporate Governance Code are key parts of the sustainable finance policy framework in Japan. The two codes were introduced in 2014 and 2015 respectively, as part of the Abe administration's Japan Revitalisation Strategy, which aims to increase the sustainable growth and medium-to-long-term corporate value of Japanese companies. The codes work as 'the two wheels of a cart' such that the sustainable growth of companies is promoted by both investors and companies.

The Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code[5] was established by the FSA and the Tokyo Stock Exchange (TSE) to follow up on the implementation and adoption of the codes, and to further improve corporate governance of listed companies. Through the codes' revisions, the discussions around stewardship and corporate governance practices in Japan have gradually moved beyond the formality of box ticking to changes in strategy and decision-making among institutional investors and corporates.

Stewardship Code

The Principles for Responsible Institutional Investors, known as the Stewardship Code, was first published in 2014 by the Council of Experts Concerning the Japanese Version of the Stewardship Code, set up by the FSA.[6] The Stewardship Code defines "principles considered to be helpful for institutional investors who behave as responsible institutional investors in fulfilling their stewardship responsibilities with due regard both to their clients and beneficiaries and to investee companies". The Code was modelled on the UK's Stewardship Code and consists of 8 principles with guidance.

The code is voluntary, and the FSA encourages sign-on by disclosing the organisations who have adopted the code. The code has helped legitimise shareholder engagement practices in a market where corporates and investors were relatively reticent about active ownership, and investors are increasingly publishing reports on their stewardship activities. According to GPIF's survey on stewardship activities, the number and quality of stewardship activities has improved since the launch of the code.[7]

The code has been revised twice, in 2017 and 2020. Figure 3 summarises the key features of the revisions. The 2020 revised version clarified that the stewardship responsibility includes consideration of sustainability (medium- to long-term sustainability including ESG factors).

As of July 2020, the code has been signed by 285 institutional investors (6 trust banks, 194 investment managers, 23 insurance companies, 53 pension funds and 9 service providers).[8]

The revised code includes areas for improvement, such as:

- How to improve engagement with the expansion of passive investment.
- How to further clarify the scope of collaborative engagement.

[5] https://www.fsa.go.jp/en/refer/councils/follow-up/index.html
[6] https://www.fsa.go.jp/en/refer/councils/stewardship/index.html
[7] https://www.gpif.go.jp/en/investment/summary_report_of_the_5th_survey.pdf
[8] https://www.fsa.go.jp/en/refer/councils/stewardship/20160315.html

Figure 3: Stewardship Code Revision – key features

2017 Revision	2020 Revision
• Asset owner's responsibility to oversee their asset managers • Asset manager's governance and management of their conflict of interests • Encouraging engagement by passive managers • Enhancing disclosure of voting records • Encouraging self-evaluation of asset managers • Mentioning the benefit of collective engagement	• Consideration of sustainability (medium- to long-term sustainability including ESG factors) • Expanding the scope of application (including institutional investors who invest in other asset classes such as bonds) • Enhancing the disclosure of reasons for voting decisions and engagement with companies, and the results and self-evaluation of stewardship activities by asset managers • Clarifying stewardship activities by asset owners, including corporate pensions • Adding new principle for service providers (such as proxy advisors and investment consultants for pensions)

Corporate Governance Code

Japan's Corporate Governance Code was first published in 2015 and revised in 2018 by the FSA and the TSE. [9] As with the Stewardship Code, the Corporate Governance Code adopts a principles-based approach with a comply or explain disclosure requirement. The TSE's listing rules require listed companies to explain any non-compliance with the Code.

The Corporate Governance Code sets out expectations that effective corporate governance will contribute to the sustainable growth and corporate value creation of each company. The Code also includes environmental and social issues in the context of good governance. Principle 2.3 states that "Companies should take appropriate measures to address sustainability issues, including social and environmental matters". On the topic of ESG disclosure, the Notes for General Principle 3 state that the board should actively commit to ensure that the disclosure of material information, including analysis of corporate performance and ESG risks and opportunities, is valuable and useful.

The TSE publishes annually the level of compliance with the code based on companies' corporate governance reports. The latest review shows that the number of companies in compliance with all principles has increased from 18% to 21% between 2018 and 2019.[10]

The Corporate Governance Code will be revised again in 2021. The Government's Follow-up on the Growth Strategy[11] suggests including the consideration of sustainability, group governance, and the quality of external directors and auditing in the next revision. In addition, the planned revision is expected to suggest a higher standard for the Prime Market, which is a new market segment at the TSE for companies with large market capitalisation and investable to institutional investors.[12] The TSE is planning to reform its cash equity market structure and introduce new market segments in April 2022.

[9] https://www.jpx.co.jp/english/equities/listing/cg/index.html
[10] https://www.jpx.co.jp/english/equities/listing/cg/tvdivq0000008jdy-att/b5b4pj0000036oba.pdf
[11] https://www.kantei.go.jp/jp/singi/keizaisaisei/pdf/fu2020.pdf (only in Japanese)
[12] https://www.jpx.co.jp/english/equities/improvements/market-structure/b5b4pj000002rxte-att/b5b4pj000003b0f1.pdf

ASSET OWNER LEADERSHIP

There is no legal requirement for asset owners to consider ESG issues in their investment process or an obligation to adopt the Stewardship Code in Japan. Progress on sustainable finance and investment by asset owners has been driven by the voluntary actions of asset owners such as the GPIF and insurance companies.

Pension schemes regulated by the MHLW have received limited guidance regarding the consideration of ESG factors. The MHLW's revised "Guidelines on Roles and Responsibilities of Asset Managers for Defined Benefit Corporate Pension" in 2018 includes a recommendation to consider asset managers' adoption of the Stewardship Code as an evaluation criterion when selecting managers.

GPIF

Japan's Government Pension Investment Fund (GPIF), the world's largest asset owner with 1.3 trillion USD of asset under management, has been a pioneer of stewardship and responsible investment. The GPIF considers itself to be a "universal owner" and a "cross-generational investor" and believes that the improvement of long-term corporate value will lead to growth of the overall economy, which will eventually enhance their investment returns.[13]

The GPIF's focus areas include:

- Engagement with external asset managers and index providers
- Encouraging stewardship activities in passive investment
- Measuring the impact and effectiveness of engagement activities
- Setting up methodologies to evaluate stewardship responsibilities in fixed income investment
- Promoting awareness of sustainability among asset owners through "Joint Statement by Asset Owners"

The GPIF's strategy has set a best practice example for institutional investors in Japan. For example, through their Stewardship and Proxy Voting principles, the GPIF expects their external asset managers to adopt the Stewardship Code and become a PRI signatory. In 2020, these principles were revised to expand the scope of assets from equity to all asset classes; to require external asset managers to exercise voting rights in a manner consistent with their corporate engagements; and to proactively engage with not only investee companies, but also various stakeholders including index providers.

Public Pension Plans

Major public pension plans have already signed the Stewardship Code and some of them are members of the Business and Asset Owners' Forum hosted by the GPIF to improve stewardship activities.[14]

In 2020, the MHLW and three other ministries revised the Basic Policy of Reserves, including an ask for reserve funds to consider promoting ESG investment from the viewpoint of securing long-term returns for the interest of beneficiaries.[15] Following this revision, some pension funds such as the Pension Fund Association for Local Government Office and the Promotion and Mutual Aid Corporation for Private Schools of Japan revised their investment policy to include ESG considerations across their portfolios.

Among the main public pension plans, only the GPIF and the Pension Fund Association are PRI signatories and only the GPIF officially supports the TCFD.

[13] https://www.gpif.go.jp/en/investment/Stewardship_Activities_Report_2019-2020.pdf
[14] https://www.gpif.go.jp/en/investment/business-asset-owner-forum.html
[15] https://www.mhlw.go.jp/content/12501000/000577958.pdf (only in Japanese)

Figure 4: Major Public Pension Plans[16]

	AUM (USD mil. as of 2018 Dec.)	PRI signatory	TCFD supporter
Government Pension Investment Fund	1,374,499	○	○
Pension Fund Association for Local Government Office	199,522		
Pension Fund Association	104,966	○	
The National Federation of Mutual Aid Associations for Municipal Personnel	99,486		
Federation Of National Public Service Personnel Mutual Aid Association	68,549		
Organization for Workers' Retirement Allowance Mutual Aid	54,324		
Japan mutual aid association of public school teachers	42,832		
Promotion and Mutual Aid Corporation for Private Schools of Japan	39,192		
National Pension Fund Association	35,982		

Corporate Pension Plans

Most of the Japanese corporate plans show little interest in responsible investment practices and incorporation of ESG issues. The number of corporate pension plans who have signed the Stewardship Code has been gradually increasing but the number remains limited (35 as of the end of July, 2020).[17] The Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code pointed out that the benefits and responsibilities of stewardship activities expected of corporate pension funds are not well understood, and that additional measures are needed to support the stewardship activities of corporate pension funds.[18] Based on this discussion, the second revised Stewardship Code includes a clarification on the expected stewardship activities of corporate pensions plans.

Corporate pension plans are usually significantly smaller than public plans, and as highlighted in the Ito Review, they are generally under-staffed.[19] With no or limited full time investment staff, corporate plans tend to fully out-source investment functions. To ensure that corporate pension funds perform their role as asset owners, the revised Corporate Governance Code asks companies to take and disclose measures to improve human resources and operational practices in order to increase the investment management expertise of corporate pension funds.

[16] https://www.meti.go.jp/shingikai/energy_environment/kankyo_innovation_finance/pdf/003_04_00.pdf (only in Japanese)
[17] https://www.fsa.go.jp/en/refer/councils/stewardship/20160315.html According to the Pension Fund Association, there are 12,488 corporate pension plans in Japan as of August 2020 (https://www.pfa.or.jp/activity/tokei/nenkin/suii/suii02.html).
[18] https://www.fsa.go.jp/en/refer/councils/stewardship/material/20191002_03.pdf
[19] https://www.meti.go.jp/english/press/2014/0806_04.html

CORPORATE ESG DISCLOSURE

Japanese companies are subject to two main disclosure requirements: (1) legislative requirement by the Companies Act and the Financial Instruments and Exchange Act, and (2) disclosure requirement by stock exchanges. In addition, companies can provide voluntary disclosure through investor relations, annual reports etc. There is no legal requirement to disclose standardised ESG information.

Legislative Disclosure Requirement

The Companies Act, whose main objective is to protect the interests of both creditors and shareholders, requires all companies to disclose a business report and financial documents. It does not explicitly require companies to disclose ESG information.

The Financial Instruments and Exchange Act sets requirements for disclosure at the time of issuing securities and ongoing disclosure. Companies that offered securities and filed registration statements in the past or whose shares are listed on Japanese stock exchanges are required to file an Annual Securities Report.[20] In the Annual Securities Report, companies disclose information such as key financial data, business overview (including management policy, risk factors, management's discussion and analysis of consolidated financial condition etc.) and corporate governance.

The Working Group on Corporate Disclosure of the Financial System Council stated that many Japanese companies do not disclose enough "narrative" information, including on their long-term corporate strategy; management's discussion and analysis of financial condition; results of operations and cash flows; and risk factors.[21] Following the proposal by the Working Group, the Cabinet Office Ordinance on Disclosure of Corporate Affairs was partially revised, and the FSA published "Principles Regarding the Disclosure of Narrative Information", requiring the disclosure of narrative information material to investors.[22] The decision on what information is material should include the degree of impact that the issue will have on corporate value, operating results and the likelihood of recurrence in the future.

Stock Exchange Disclosure Requirement

The TSE's listing rules require all listed companies to explain any non-compliance with the Corporate Governance Code.[23] In addition, the TSE requires every listed company to prepare a Corporate Governance Report, which provides investors with information on corporate governance including an explanation for any non-compliance with the Code. ESG information is disclosed as part of the corporate governance report.

Voluntary Disclosures

Many companies disclose ESG information on a voluntary basis. According to a GPIF survey, 75% of 662 respondent companies voluntarily disclose ESG information and 53% of them publish integrated reports or equivalent reports for institutional investors.[24] Disclosure frameworks such as the GRI Standards, the IIRC framework, SASB and TCFD are used along with the "Guidance for Collaborative Value Creation" published by the METI.

While the range of frameworks that companies can refer to when looking into ESG disclosure has grown, companies have reported difficulties in telling the frameworks apart and confusion over how to use them. Given that most of the frameworks are from outside Japan, many companies have also felt that there is not enough information about them in Japanese. With this background, the Japan Exchange Group and the Tokyo Stock Exchange published the "Practical Handbook for ESG Disclosure" to support companies improve ESG disclosure and encourage dialogue between listed companies and investors.[25]

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[20] *Yukashoken-hokokusho* in Japanese. English translation of the Securities Report is not required by law.

[21] https://www.fsa.go.jp/en/refer/councils/singie_kinyu/20180927/01.pdf

[22] https://www.fsa.go.jp/en/news/2019/20190606-3.html

[23] https://www.jpx.co.jp/english/rules-participants/rules/regulations/tvdivq0000001vyt-att/securities_listing_regs1-826_20190716.pdf

[24] https://www.gpif.go.jp/en/investment/summary_report_of_the_5th_survey.pdf

[25] https://www.jpx.co.jp/english/corporate/sustainability/esg-investment/handbook/index.html

CLIMATE DISCLOSURES

Climate change is increasingly viewed as a material issue by institutional investors and companies, according to the GPIF survey.[26][27] Japanese policymakers also view climate change as a major issue and a threat to financial market stability. The Ministry of Environment (MOE) refers to climate change as a climate crisis to share a sense of urgency and announced that the government would aim to shut down 100 inefficient coal plants within a decade and cease much of its financing and other support measures for constructing coal-fired power plants overseas.[28]

The government's current policy is to promote voluntary disclosure based on the TCFD recommendations (officially endorsed by the FSA, METI and MOE) and dialogue between institutional investors and companies.[29] The government expects that such voluntary disclosure and dialogue will unlock the private capital flows necessary for technological innovation to achieve a transition towards a low-carbon economy and create "a virtuous cycle of environment and growth".

TCFD Consortium

Japan has the most TCFD supporters among individual countries (298 as of August 2020). 195 out of 298 supporters are non-financial companies, partly because METI promotes the TCFD recommendations as a tool for companies to communicate their activities, especially new business opportunities or technological innovation, to investors.

The TCFD Consortium was set up in May 2019 with support from the METI, FSA and MOE to promote quality reporting and dialogue between institutional investors and companies.[30] Keidanren, the Japanese Business Association, is one of the founding members, signalling to Japanese companies the importance of climate-related financial disclosure. The Consortium published two sets of guidance aiming to promote the uptake of TCFD aligned information disclosures.[31]

According to the "FY2020 TCFD Consortium Member Survey Result"[32], about 50% of respondents stated that, based on TCFD recommendations, either "all items" or "some, but not all, items" were disclosed, mostly in their integrated report, environmental/sustainability report or corporate website.

METI's action on Green Finance, Climate Transition Finance and Innovation

In its Innovative Green Innovation Strategy, METI has identified three focus areas to promote Green Finance: 1) climate related corporate disclosure based on the TCFD recommendations, 2) financing green innovation and financial products, and 3) dialogue between institutional investors and companies.[33] METI has also started a discussion on 'Climate Transition Finance' as a part of its work on green finance, promoting financing for low-carbon activities, decarbonisation of high-emitting industries, and financing the transition towards achieving the ambition of the Paris Agreement.[34] Finally, METI has published its Climate Innovation Finance Strategy 2020, announcing that it is critical to promote transition, green, and innovation finance simultaneously in order to achieve the Paris Agreement and the Sustainable Development Goals (SDGs).[35]

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[26] https://www.gpif.go.jp/en/investment/Stewardship_Activities_Report_2019-2020.pdf
[27] https://www.gpif.go.jp/en/investment/summary_report_of_the_5th_survey.pdf
[28] http://www.env.go.jp/policy/hakusyo/r02/pdf.html (only in Japanese)
[29] https://www.env.go.jp/earth/earth/ondanka/mat3.pdf and https://www.kantei.go.jp/jp/singi/tougou-innovation/pdf/kankyousenryaku2020.pdf (only in Japanese)
[30] https://tcfd-consortium.jp/en
[31] https://tcfd-consortium.jp/en/news_detail/19100802 and https://tcfd-consortium.jp/en/news_detail/20081201
[32] https://tcfd-consortium.jp/pdf/en/news/20081202/Questionnaire2020_results_general-e.pdf
[33] https://www.kantei.go.jp/jp/singi/tougou-innovation/pdf/kankyousenryaku2020.pdf (only in Japanese)
[34] https://www.meti.go.jp/press/2019/03/20200331002/20200331002-2.pdf
[35] https://www.meti.go.jp/press/2020/09/20200916001/20200916001.html (only in Japanese)

POLICY RECOMMENDATIONS

While progress has been made in sustainable finance and investment policy in Japan, further reforms are needed to accelerate the development. The PRI engages with policymakers and other related stakeholders to discuss key issues and find the best way for the country to fully integrate sustainability issues into its financial system. The PRI also encourages public policy engagement among PRI signatories. PRI recommendations include, but are not limited to, the following:

SUSTAINABLE FINANCE STRATEGY

- Policymakers including the FSA, METI, MOE and MHLW should work together to publish a comprehensive national strategy on sustainable finance and investment. It would enable the coordination of various activities across institutions, find the gap between current and desirable policy, and communicate the goals to domestic and global stakeholders. Policymakers could consider creating an independent advisory body for policy recommendations, target setting, and progress monitoring, appropriate to the institutional architecture of Japan's policymaking process.
- Japan has adopted a principles-based and soft-law approach to sustainable finance, encouraging voluntary actions from institutional investors and companies. Non-binding guidance is useful in developing market practice, but policymakers should consider introducing mandatory regulations in Japan, since they are more impactful to close the sustainability gap, create market efficiencies, and level the playing field rewarding first movers and the best social and environmental performers.
- Policymakers should consider how to harmonise their policy with those in other countries. The PRI recommends that Japan join global initiatives on sustainable finance, such as the International Platform on Sustainable Finance (IPSF).

STEWARDSHIP AND CORPORATE GOVERNANCE CODES

- Policymakers, institutional investors and other stakeholders should continuously improve stewardship in Japan. For example, the FSA should provide guidance on how to apply the Stewardship Code to assets other than listed equity, and how to improve stewardship activities in the growing passive investment space.
- The FSA should publish guidance on collaborative engagement and acting in concert to clarify that collaborative engagement on sustainability issues is permitted. Existing guidance has led to some uncertainty as to the scope of engagement that would be subject to reporting requirements.[36]
- The planned revision of the Corporate Governance Code in 2021 is expected to suggest a higher standard for the TSE's Prime Market. The PRI recommends that the FSA and TSE hold a consultation process with wider stakeholders, including global investors, in order to define the responsibilities of the higher standard market constituents on the topics of corporate governance.

ASSET OWNER REGULATIONS

- The MHLW should consider requiring all pension schemes to incorporate ESG issues in investment decision making and disclose how they do so. The MHLW should also recommend that all pension schemes adopt the Stewardship Code and disclose their stewardship activities to beneficiaries.

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[36] https://www.fsa.go.jp/en/refer/councils/stewardship/20140226.pdf

- Public plans should show leadership in establishing market norms on responsible investment and stewardship. Public plans should consider becoming PRI signatories and supporting the TCFD recommendations.
- The MHLW, the GPIF, the Pension Fund Association[37], and other public funds should consider providing technical advice and capacity building support to corporate plans, especially on selecting and monitoring external managers, and incorporating ESG issues in investment decision making. Corporate plans should consider joining the PRI to build capacity on responsible investment practice.

CORPORATE ESG DISCLOSURE

- Policymakers should introduce mandatory ESG disclosure, including TCFD disclosure, with clear guidance on information disclosure requirements, including third-party data assurance. A well-designed mandatory disclosure will reduce inefficiencies and unclearness around the current corporate ESG disclosure, incentivise companies to allocate adequate resources for disclosure, and reward best environmental and social performers.
- Policymakers should encourage disclosures translated into English to ensure global investors have access to corporate information and to promote dialogue.

CLIMATE POLICY

- Japan is the fifth largest emitter of GHGs. As we approach the delayed COP26 in 2021, current policies in Japan fall well short of delivering an emissions pathway in line with the goals of the Paris Agreement. Japan needs to establish goals and interim targets to achieve net zero in line with other leading countries, and to put in place the financial sector and real economy policy measures to deliver on that ambition.
- Policymakers should introduce new requirements in Japan for corporate and finance sector disclosures on sustainability and climate-related performance and risk. This would provide investment markets with the necessary information to channel capital at scale to the most effective and efficient low-carbon solutions and opportunities.

PRI is building on the analysis produced by its Inevitable Policy Response (IPR) project to publish climate policy briefings in 5 key markets (UK, US, EU, Japan and China). The PRI will publish in 2020 a Japan climate policy briefing, which will provide a roadmap for near-term policy asks across key sectors for decarbonisation (including power, industry, and transport) which are feasible, readily implementable and crucial to drive the transition towards a zero-carbon economy for Japan on a timescale in line with the Paris Agreement.

[37] The MHLH and the Pension Fund Association hosted Study Group on Stewardship for Corporate Pension Plan in 2017 to promote stewardship activities of corporate plans (https://www.pfa.or.jp/kanyu/shiryo/stewardship/houkoku/).

HOW TO GET INVOLVED

The PRI has developed tools and best practice examples for investors to support their policy engagement.[38]

Our future work on Japan includes the following:

- A Japan climate policy briefing, providing a roadmap for a transition towards a net zero carbon economy, based on the global framework of policy levers outlined in PRI's Inevitable Policy Response policy forecasts.[39]
- The project 'A Legal Framework for Impact', which will analyse how legal frameworks allow for investors to consider sustainability impact across 11 jurisdictions, including Japan.[40]

If you are interested in keeping updated on the PRI's work in this area, learning more about relevant engagement opportunities as they arise and/or collaborating with the PRI and investors on policy engagement, please join PRI's Global Policy Reference Group here.

We welcome comments on this briefing from PRI Signatories.

For any queries regarding our policy work in Japan please contact: Natsuho Torii (natsuho.torii@unpri.org)

[38] https://www.unpri.org/investor-engagement-in-public-policy-guidance-for-investors-and-policymakers/294.article
[39] Reports for the UK and the US can be downloaded here: https://www.unpri.org/policy/briefings
[40] https://www.unpri.org/policy/a-legal-framework-for-impact